

AB 118: Air Quality Improvement Program (AQIP)

FY 2009-10 Funding Plan Discussion Document

Public Workshops

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Sacramento, CA

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Section I: Background

AB 118 (Nunez, 2007) provides ARB with funding through 2015 for the Air Quality Improvement Program (AQIP), upon appropriation from the Legislature. The Governor's Proposed Budget for Fiscal Year (FY) 2009-10 includes \$44.3 million for the AQIP. ARB staff is developing a proposed AQIP Funding Plan for FY 2009-10 to guide expenditure of these funds. The Funding Plan is each year's plan for expending AQIP funds, and includes funding targets, general criteria, and potential administering agencies for each project category. At the November 5-6, 2008 AQIP public workshop, staff provided draft FY 2009-10 project category funding targets for public comment (visit www.arb.ca.gov/msprog/aqip/meetings/aqipfundingplandiscussiondoc.pdf for details).

This Funding Plan Discussion Document provides refined project category funding targets (See Table I-1) and a summary of each potential project category. Once updated to reflect stakeholder feedback from this workshop and ongoing workgroup meetings, this Discussion Document shall serve as the foundation of the Proposed FY 2009-10 Funding Plan. Staff plans to release the Proposed Funding Plan for public comment by March 20, 2009 for consideration at the April 23, 2009 Board hearing.

Table I-1: Preliminary FY 2009-10 AQIP Project Category Funding Targets

Project Category	Funding Amount	Additional Details
Hybrid Truck and Bus Vouchers	\$26M	Provide ~\$20,000-40,000 per vehicle voucher for purchase of a new hybrid truck or bus
Demonstration of Zero- and Near-Zero Emission Vehicles and Equipment <u>Examples of possible project categories:</u> <ul style="list-style-type: none"> • Medium-horsepower hybrid locomotive • Hybrid tugboat conversion • Advanced technology agricultural equipment • Fuel cell forklift • Fuel cell bus 	\$5-15M	ARB staff continues to hold ad hoc stakeholder workgroup meetings to help evaluate and prioritize demonstration projects for inclusion in the FY 2009-10 Funding Plan.
Zero-Emission and Plug-In Hybrid Light-Duty Vehicle Rebates	\$2-5M	Provide rebate of up to \$5,000 for purchase of a new zero-emission or plug-in hybrid light-duty vehicle (following Alternative Fuel Incentive Program model). <i>Staff continues to evaluate whether to include zero-emission medium-duty vehicles (typically electric delivery vans) in this program. If these vehicles are included in the program, the funding range could increase to \$4-9M.</i>
Lawn and Garden Equipment Replacement	\$1-2M	Provide up to \$300 per mower voucher/rebate to replace an uncontrolled lawnmower with an electric mower in air districts with the worst air quality.
Zero-Emission All-Terrain Agricultural Work Vehicle (Agricultural ATV) Rebates	\$0.8 - 1.3M	Provide a consumer rebate for up to \$3,000 for purchase of a new electric all-terrain agricultural vehicle for use on farms or other work applications.
Continuation of Loan Program for Clean On-Road Heavy-Duty Trucks (funded in FY2008-09)	tbd	Funding to be determined based on initial implementation of FY2008-09 truck loan program.
TOTAL	\$35-49M	
Available FY 2009-10 Funding	\$44.3M*	

* Available funding estimate based on the Governor's Proposed FY 2009-10 Budget. Available funding shall be finalized when the FY 2009-10 Budget is signed by the Governor.

Section II: Hybrid Truck and Bus Voucher Incentive Program (HVIP) – \$26 million

Overview

Hybrid medium- and heavy-duty vehicles have the potential to significantly reduce criteria pollutant, air toxic and greenhouse gas emissions – particularly in refuse trucks, work trucks, delivery vans, urban buses, and other vehicles with high stop-and-go or idling duty cycles. These vehicles can also provide significant fuel economy benefits and fuel cost savings relative to their non-hybrid counterparts. Multiple configurations and classes of hybrid trucks and buses are now on the market, but these vehicles' purchase is typically too costly to justify based on fuel savings alone.

A large and carefully-crafted hybrid truck and bus voucher program would not only accelerate the immediate commercialization of these vehicles, but would also have significant multiplier benefits. As more vehicles are produced, production costs and sales price should decline to the point where hybrid trucks and buses are competitive with their non-hybrid counterparts, ultimately eliminating the need for incentives. An investment in incentives for new vehicle purchases will also accelerate the development and commercialization of more efficient hybrid vehicles, and hybrids in less traditional applications, such as off-road equipment, marine vessels, and locomotives.

HVIP Program Implementation

Staff believes the HVIP should be geared towards accelerating the deployment of approximately the first thousand hybrid trucks and buses in California in order to jump start the market for this technology. This can best be achieved by making the program straightforward and accessible to all potential California-based vehicle purchasers. Table II-1 identifies staff's proposed funding target for the HVIP in the FY 2009-10 AQIP Funding Plan.

Table II-1: Proposed FY 2009-10 HVIP Funding

Approximate Number of Vehicles	Average Vehicle Incentive Amount	Total FY 2009-10 HVIP Funding
1,000	\$25,000	\$26,000,000*

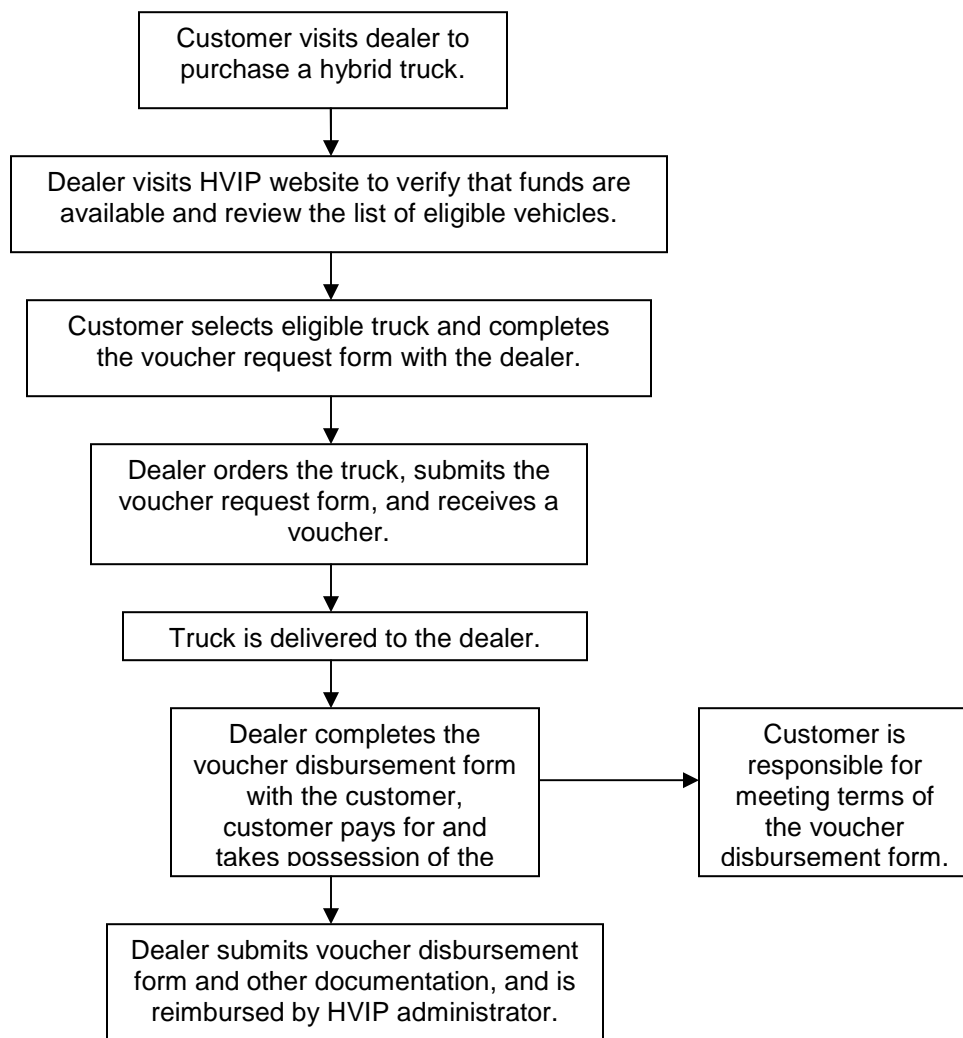
* Includes funding for program administration.

Staff is proposing the HVIP be structured as a voucher program in which the buyer of the eligible hybrid truck or bus would receive a voucher for the incentive amount, redeemable at the time of the vehicle delivery and purchase. This structure is similar to that of ARB's Alternative Fuel Incentive Program (AFIP) vouchers for zero-emission light- and medium-duty vehicles. Figure I-1 describes a hypothetical truck dealer sale and voucher reimbursement transaction to illustrate how the HVIP could be implemented. Staff welcomes stakeholder comments regarding the potential implementation mechanism described below and in Figure I-1.

A website developed by the HVIP administrator would include a list of eligible hybrid trucks and buses, as well as the eligible voucher amount for each vehicle. The webpage would include a voucher request form for the dealer (in concert with the purchaser) to submit at the time a specific vehicle is ordered, with the voucher to be redeemable at the time the vehicle is delivered. A similar structure would also apply for vehicles which are ordered directly from a hybrid truck manufacturer or a Truck Equipment Manufacturer (TEM).

Staff is proposing that the HVIP be administered by a third-party, such as an air district or non-profit agency with heavy-duty vehicle or air quality expertise. The third party administrator would be chosen by ARB via a competitive solicitation and be responsible for implementing the HVIP statewide. The administrator would also be responsible for program outreach, with outreach efforts targeting air basins with the worst air quality. ARB staff is considering capping administrative costs for the HVIP at five percent.

Figure I-1: Potential Hybrid Truck Purchase Transaction



HVIP – Eligible Vehicles and Incentive Amounts

To be considered a hybrid for the purposes of this program, staff is proposing a vehicle must draw propulsion energy from onboard sources of stored energy that are both an internal combustion or heat engine using consumable fuel, and a rechargeable energy storage system. Staff is proposing vehicles meet one of the three following eligibility criteria to ensure the hybrid system functions properly and achieves the maximum possible emission reductions:

1. The vehicle is an IRS-approved qualifying heavy- or medium-duty hybrid vehicle which also meets additional ARB requirements to ensure the California-certified engine and after-treatment devices shall continue to function as required; or
2. The vehicle is approved by ARB as a hybrid, based upon vehicle test data similar to that submitted to the IRS; or
3. The vehicle is ARB-certified as a hybrid medium- or heavy-duty vehicle. Hybrid vehicles which are ARB-certified to significantly reduce criteria pollutants would be eligible for higher incentive amounts.

Staff is proposing this flexible approach to jump-start the market for these vehicles in the program's first year. However, staff expects trucks and buses would have to be ARB-certified as a hybrid vehicle to be eligible for HVIP funds beginning in FY 2010-11 if the HVIP is continued.

To be eligible for a voucher, staff is proposing the hybrid vehicle and purchaser would have to meet certain requirements, including:

1. The vehicle must have a gross vehicle weight rating (GVWR) of at least 10,000 pounds, and must be used for commercial purposes.
2. The chassis must be titled and licensed in California and the vehicle must be California-registered.
3. The purchaser must be: a) a California-based business, non-profit, or government entity, or b) a business, non-profit, or government entity operating in California for at least two years (prior to the vehicle purchase order).
4. The purchaser must commit to keep the new vehicle for at least five years after the vehicle delivery date and that one-hundred percent of the vehicle's operation shall occur within California during this time period.

Vehicle manufacturers, dealers, and other stakeholders have indicated that -- due to the fuel economy benefits of hybrid trucks and buses -- an incentive for approximately half the vehicle's incremental cost would spur many purchasers to buy a hybrid rather than non-hybrid truck or bus. Based on this business model, staff is considering specific HVIP funding amounts in the ranges identified in Table II-2.

Table II-2: Eligible Hybrid Vehicle Incentive Amounts

Vehicle Weight	Base Vehicle Incentive	Additional Incentive for ARB Vehicle Certification of Criteria Pollutant Emission Reductions
10,001 – 14000 lbs.	\$5,000 - \$15,000	\$5,000
14,001 – 33,000 lbs.	\$15,000 - \$25,000	\$5,000 - \$10,000
> 33,000 lbs.	\$20,000 - \$35,000	\$5,000 - \$10,000

To further encourage purchase of a hybrid truck or bus by small fleets, ARB staff is also considering an additional \$5,000 grant for the first HVIP voucher redeemed by any entity. For example, a truck owner-operator purchasing just one truck would be eligible for an additional \$5,000 voucher for that vehicle, while a larger fleet buying several trucks would also receive one \$5,000 voucher for the first vehicle purchased.¹

HVIP – Additional Information

ARB staff has conducted four public workshops (including this one) to discuss development of the AQIP. Staff also held an HVIP Work Group meeting on January 13, 2009 to discuss development of the HVIP. Staff shall hold an additional work group meeting on February 24, 2009 to discuss HVIP structure and administration prior to release of the FY 2009-10 Funding Plan in March 2009 (for more information regarding this meeting, visit: www.arb.ca.gov/msprog/aqip/meetings/meetings.htm). ARB staff also expects to hold at least one additional HVIP Work Group meeting in Spring/Summer 2009 to discuss development of the HVIP Project Solicitation.

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¹ Staff believes this approach will encourage purchase and acceptance of hybrids across more fleets and ultimately help the market for these vehicles grow faster. Staff also believes that since these vehicles' emission reductions are closely tied to how they are driven, vehicles in smaller fleets where the owner has "bought into" the vehicle purchase have the potential for more air quality benefits than vehicles in larger fleets.

Section III: Demonstration of Zero- and Near-Zero-Emission Vehicles and Equipment -- \$5-15 million

Overview

The goal of the demonstration project portion of the AQIP is to provide funding for emerging strategies that can reduce both criteria and toxic air pollution emissions in the near future. To best serve the citizens of California and the intent of AB 118, demonstration funding needs to target promising emission reducing strategies that are near deployment, but lack the funds to demonstrate the technology.

Since early December 2008 and continuing until late February 2009, ARB staff has been conducting a series of public demonstration project work group meetings (See Table III-1). The work group meetings have provided the opportunity for stakeholders to propose potential demonstration projects and to provide comments on other potential projects. Staff is also interested in ideas from local air districts interested in receiving AQIP funding to implement promising demonstration projects.

The five project categories being considered by ARB for demonstration project funding in the FY 2009-10 AQIP Funding Plan are locomotive, marine, agriculture, off-road and transit and school bus projects. Staff welcomes suggestions from air districts and other entities on the possibility of receiving AQIP funds to demonstrate promising technologies in these five source categories. Demonstration projects will generally focus on accelerating the viability and ultimate commercialization of zero- and near-zero-emission technologies. Staff's proposed demonstration project funding target in the FY 2009-10 AQIP Funding Plan is \$5-15 million.

Table III-1: Demonstration Project Work group Meeting Dates

Work Group Category	Meeting Dates
Work group Kick-Off	December 4, 2008
Locomotive	December 18, 2008 & January 28, 2009
Marine	January 8, 2009 & February 2, 2009
Transit and School Bus	January 27, 2009 & February 13, 2009
Off-Road	February 9, 2009 & February 19, 2009
Agriculture	January 26, 2009 & February 17, 2009
Final Work group Meeting	February 24, 2009

Locomotive Demonstration Project Category

The locomotive demonstration project category provides a unique opportunity to demonstrate cutting edge emission-reducing technology from large, long-lived, diesel-fueled locomotive engine sector. Staff believes that a significant investment of AQIP demonstration program dollars in this category can yield large emission reductions providing for quicker implementation of these technologies throughout the State with potential crossover applications in the marine vessel category.

Staff has already held the two scheduled locomotive project demonstration work group meetings, with participation from a wide array of stakeholders. Based on these discussions, staff is considering the following two technologies for FY 2009-10 funding. However, additional promising stakeholder suggestions may still be considered.

- Medium Horsepower Locomotive Gen-Set Repower
- Switcher DPF and SCR Retrofit

These potential locomotive demonstration projects have the possibility for real, surplus emission reductions within a large population of locomotives that typically operate in environmental justice (EJ) and/or severe non-attainment areas in the state.

Marine Vessel Demonstration Project Category

The marine vessel project category has already seen significant developments in technology. Many inventive ideas currently in development have the potential for large future emission reductions. Limiting the scope of potential projects to those that can provide the greatest potential emission reductions is the priority for FY 2009-10 funding. The final marine category work group meeting has been held, however additional project ideas will be considered from stakeholders. The leading potential marine demonstration projects – identified below – have the potential for relatively large emission reductions, surplus to current regulations.

- Tugboat Hybrid Retrofit
- Ferry Hybrid Retrofit
- Sail Retrofit

Large tugboat and ferry operations typically operate near communities and demonstrating these marine projects could potentially provide future air quality benefits to local residents.

Transit and School Bus Project Category

Transit and school buses were the first vehicle types to apply alternative fuel technologies and widespread diesel particulate filter retrofits. With the 2010 emission standards soon to be required, zero- or near-zero emission technology is the next logical step for this vehicle category. Based on discussions with stakeholders, and in consideration of the applicable ARB fleet rules, ARB staff is considering the following transit and school bus demonstration projects for potential FY 2009-10 AQIP funding:

- Fuel Cell Transit Bus
- Battery Electric Transit Bus
- Battery Electric School Bus
- School Bus Digital Engine and Hybrid Retrofit

Off-Road Project Category

The first off-road demonstration work group meeting is scheduled for February 9, 2009 in Sacramento. Promising off-road technologies that could be considered for demonstration funding include:

- Fuel Cell Forklifts
- Electric Drive Tractors
- Construction Equipment

Agriculture Project Category

ARB staff is conducting work group meetings to evaluate agricultural engine and equipment projects that have the potential to achieve substantial emission reductions in criteria pollutants. Efficiencies in engine and equipment operations can provide cost savings to farmers, while providing cost-effective criteria pollutant emission reductions. Demonstration projects staff is evaluating as part of the work group meetings include:

- Engine Thermal Efficiency Improvements
- Auxiliary Engine Electrification

Demonstration Projects – Additional Information

ARB staff has conducted seven public demonstration project work group meetings, with five additional meeting scheduled through late February. Private meetings can be also be held at stakeholders' request to discuss potential projects that contain proprietary sensitive information. If additional demonstration project work group meetings are warranted, staff shall announce these additional meetings via AQIP listserv and post this information to the AQIP meeting website:

<http://www.arb.ca.gov/msprog/aqip/meetings/meetings.htm>. Staff expects to hold at least one additional demonstration project work group meeting prior to the demonstration project solicitation period in Summer/Fall 2009.

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Section IV: Zero-Emission and Plug-in Hybrid Light-Duty Vehicle (ZEV) Rebate Program-- \$2 - 5 million

Overview

Zero emission vehicles (ZEVs) and near-zero emission vehicles shall play a key role in helping California attain federal and state air quality standards and its climate change goals. However, the difference in cost between a ZEV and a conventional fuel vehicle can be as high as \$20,000. Commercially available ZEVs are therefore typically too expensive to justify their purchase based entirely on their lower fuel and maintenance costs.

The objective of this incentive program is to offset a portion of the incremental cost of ZEVs, neighborhood electric vehicles (NEVs) and PHEVs so that the purchase price is more competitive with that of conventionally fueled vehicles. The proposed incentive will support the critical ramp-up in ZEV production that is vital in driving down manufacturing cost to facilitate commercialization. In addition, an investment in incentives for new vehicle purchases could help accelerate the development and commercialization of electric vehicle technology in less traditional applications, such as off-road equipment, marine vessels, and locomotives. Rather than develop an entirely new program structure, staff intends to emulate ARB's successful AFIP Incentives for ZEVs and PZEVs.²

ZEV Rebate Program Implementation

Similar to how the AFIP ZEV rebate is structured, staff believes funding should be directed to buyers of eligible vehicles with a rebate redeemable after the vehicle is purchased. Staff is proposing rebates in the amounts identified in Table IV-1. Staff is also evaluating opportunities for near-term commercialization of medium-duty electric delivery vans in California. If these vehicles are added as an element of this program, the funding targets indicated in Table VI-1 will be modified to accommodate the additional category.

ZEV Rebate -- Project Administration

Staff is proposing that the ZEV incentive program be administered by a third-party, such as an air district or a non-profit agency with electric vehicle or air quality expertise. The third-party administrator would be chosen by ARB via a competitive solicitation and be responsible for implementing the ZEV incentive program statewide. ARB staff believes between five and ten percent of the available funds should be allowed for program administration.

Eligible Vehicles and Incentive Amounts

Similar to how the AFIP was implemented, staff envisions a website for this program that contains a list of eligible electric vehicles and the eligible rebate amount for each vehicle. California purchasers of eligible vehicles would have the opportunity to redeem their rebate with the program administrator until project funds are depleted.

² See Staff Report on the Proposed Allocations of \$25 Million for the Alternative Fuel Incentive Program (California Air Resources Board, May 15, 2007) for more information.

Table VI-1: Proposed FY 2009-10 ZEV Funding

Approximate Number of Vehicles	Vehicle Rebate Amount	Total FY 2009-10 Funding
Up to 500 ZEVs	\$5,000	\$2,500,000
Up to 500 PHEVs	\$3,000	\$1,500,000
Up to 1,000 NEVs*	\$1,000	\$1,000,000
TOTAL		\$5,000,000*

* Staff is proposing a potential ZEV, NEV, and PHEV rebate program be funded at \$2-5M, with the range to be increased to \$4-9M if a medium-duty commercial vehicle element is included.

Additional Information

The AQIP team has met with industry representatives and other stakeholders to develop the parameters of the proposed ZEV Rebate Program. Staff expects to hold a work group meeting in late February to discuss potential inclusion of electric medium-duty commercial vehicles in the program and opportunities to improve upon the AFIP model for program implementation.

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Section V: Lawn and Garden Equipment Replacement (LGER) Program **\$1-2 million**

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Overview

Several large air districts currently implement successful and highly visible lawn and garden equipment replacement programs; however, these programs are limited by funding. Staff is considering a program to replace gas-powered residential lawn and garden equipment with zero-emission (typically electric) lawn and garden equipment as part of the FY 2009-10 Funding Plan. Funding zero-emission lawn and garden equipment will allow this technology to be more cost competitive with gas-powered equipment.

Limiting the program to zero-emission lawn and garden equipment will provide immediate reductions of criteria pollutant and greenhouse gas emissions and help stimulate the development and commercialization of zero-emission off-road technologies. While zero-emission lawn and garden equipment is commercialized only in the residential sector, significant incentives for this equipment could drive technology improvements that translate to the larger commercial lawn and garden sector. Staff envisions that zero-emission commercial lawn and garden equipment would be eligible for this program once this equipment becomes available.

LGER Program Implementation

Staff is considering allowing local air districts to apply for LGER funding because of their experience implementing lawn and garden replacement programs locally. Districts would likely be evaluated for funding based on factors such as: federal 8-hour ozone classification; success with current lawn and garden replacement program; staff experience with lawn and garden manufacturers and vendors to successfully implement the program within the district boundaries; equipment demand within district boundaries; potential emission reductions; ability to provide match funding; program simplicity and transparency; administrative costs; and level of oversight and accountability.

ARB staff proposes allocating approximately \$1-2 million for the LGER program in the FY 2009-10 AQIP Funding Plan (Table V-1). Zero-emission lawn and garden equipment for residential and commercial use are eligible for the LGER program; however, staff anticipate only residential electric lawn mowers will be available for the first funding cycle. For the first funding cycle, the proposed LGER program could pay up to \$300 per residential lawn mower. Staff is also considering a match requirement for local air districts whereas each participating district would provide a dollar in match funding for every dollar of AQIP funding. Staff believes allowable administration funding for this program be limited to between five and ten percent.

Table V-1 – Proposed FY 2009-10 LGER Program Funding

Approximate Number of Residential Lawn Mowers Funded	Incentive Amount per Lawn Mower	Approximate AQIP Funding
3,300-6,600	Up to \$300	\$1-2M

LGGER – Additional Information

Staff will hold a work group meeting on February 11, 2009 to discuss development of the LGGER program. Staff shall may hold additional LGGER program work group meetings as needed to discuss LGGER structure and administration prior to release of the FY 2009-10 Funding Plan in March 2009.

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Section VI: New Zero-Emission Agricultural All-Terrain Work Vehicle (Agricultural ATV) Rebate Program – \$800,000 - \$1.3M

Overview

Off-road all-terrain vehicles are frequently used in the agricultural industry as they are versatile, affordable, fuel efficient, and suitable for areas where soil compaction may be a concern. The cost of an electric agricultural ATV is approximately one-third more than its gasoline-powered counterpart. The incremental difference in price point may deter growers from making this investment. An incentive program would accelerate commercialization of this technology and have the immediate benefit of reducing criteria pollutant and greenhouse gas emissions. It may also lead to an economy of scale for zero emission agricultural ATVs by reducing production and sales costs as volume increases.

Electric agricultural ATVs also have applications outside of the agricultural sector – for utility purveyors for use in maintaining linear transmission features, substations, and other utility infrastructure not accessible by road. Electric agricultural ATVs could be used in applications not appropriate for gasoline-powered ATVs, such as high spark areas, tunnel maintenance, and indoors.

Agricultural ATV Rebate Program Implementation

Staff believes off-road funding should be directed toward providing incentives for zero-emission heavy-duty agricultural ATVs for commercial agricultural and other work applications. Table IV-1 identifies staff's proposed funding target for off-road zero emission agricultural ATVs in the FY 2009-10 AQIP Funding Plan.

Table IV-1: Proposed FY 2009-10 Agricultural ATV Funding

Approximate Number of Vehicles	Average Vehicle Incentive Amount	Total FY 2009-10 Agricultural ATV Funding
400	\$2,000 to \$3,000	\$800,000 to \$1,300,000

Staff is proposing the program be structured as a rebate program in which the buyer of the eligible agricultural ATV would receive a rebate for the incentive amount, redeemable at the time of the final vehicle purchase. Staff is seeking stakeholder comments regarding project implementation.

Eligible Vehicles and Incentive Amounts for Agricultural ATVs

Several manufacturers offer electric agricultural ATV products that range in application from lawn and landscape maintenance to commercial farming and ranching. Recreational off-road utility vehicles and light ATVs are typically designed with different performance goals than heavy-duty agricultural ATVs. Heavy-duty agricultural ATV specifications will be used in setting the eligibility criteria. Staff is seeking stakeholder input on eligibility criteria to ensure that program funds are directed toward work vehicles, not recreational vehicles. Eligibility criteria may be defined using specifications associated with the following parameters:

- The ATV meets ARB's definition of a zero emission vehicle
- Horsepower (hp)
- Weight
- Payload limit
- Tow capacity

Applicants will be required to show proof of California residency, or proof that the commercial operation for which the ATV would be used occurs in California. Staff is seeking input on how funds may be targeted toward non-attainment air basins.

Early indications from stakeholders suggest that an incentive for approximately one-half the incremental cost would spur consumers to buy a zero emission agricultural ATV over a fuel-powered ATV.

Additional Information

Staff conducted an agriculture-focused workgroup meeting on January 26, 2009. An additional focused group meeting will be held in mid-February to finalize off-road incentives associated with the FY 2009-10 AQIP Funding Plan. Stakeholder input will be solicited during the Spring/Summer of 2009 to discuss development of solicitations.

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